



**VILLAGE OF PASCOLA, MISSOURI
YEAR ENDED DECEMBER 31, 2002**

**From The Office Of State Auditor
Claire McCaskill**

**Report No. 2004-22
March 12, 2004
www.auditor.mo.gov**

AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

March 2004

The following problems were discovered as a result of an audit conducted by our office of the Village of Pascola, Missouri.

The Village of Pascola has failed to implement five of the eleven recommendations made in our prior report that covered the year ended December 31, 1998. Although the village indicated in that report that they agreed with the recommendations, many recommendations are repeated in the current report. These include segregation of duties, budgets, publication of financial statements, bonds for officials, and documentation of the board's approval of bills.

The Board of Trustees for the Village of Pascola has not documented the specific reasons for closing meetings and actions taken by the board in those meetings, has approved payment of bills in closed meetings, and held an unofficial meeting where discussion and decisions were made concerning culverts for the village. In addition, the Village does not have a formal policy regarding public access to village records.

The village has one member of the Board of Trustees that serves as the Village Clerk and Treasurer, and his wife serves as secretary. Neither the board nor other personnel independent of the cash custody and the record-keeping functions provide adequate supervision or review of this work performed by the Village Clerk and his wife. Additionally, a checkbook balance is not maintained and bank reconciliations are not performed each month. Also, the village does not have bond coverage for members authorized to sign checks.

The village had an apparent conflict of interest with one of the board members performing restoration work on city hall. In 2003, the village advertised for bids for restoration work on city hall and received two bids with one of the bids being from a board member. The bid from the board member was for \$9,800, while the other bid was \$8,292. The project was awarded to the board member and the reasons for this decision were documented in the minutes. Personal interests in business matters of the village create the appearance of conflicts of interest and a lack of independence that could harm public confidence in the board and reduce their effectiveness. Given the circumstances of this transaction, the village should have considered re-bidding the project. In addition, the village did not obtain appraisals to ensure the reasonableness of selling two parcels of land for \$5,000. The village had no documentation supporting the basis for their original asking price or what they finally accepted. Also, the Board failed to obtain insurance for the recently renovated City Hall building.

The village ordinances were not complete and up-to date. In addition, the Board has not published a semi-annual financial statement, prepared an annual budget, or documented their approval of bills.

All reports are available on our website: www.auditor.mo.gov

YELLOW SHEET

VILLAGE OF PASCOLA, MISSOURI

TABLE OF CONTENTS

	<u>Page</u>
STATE AUDITOR'S REPORT	1-3
MANAGEMENT ADVISORY REPORT - STATE AUDITOR'S FINDINGS.....	4-11
<u>Number</u>	<u>Description</u>
1.	Ordinances, Financial Reports, and Budgets5
2.	Public Records, Minutes, and Meetings6
3.	Accounting Controls and Procedures.....8
4.	City Hall Property and Restoration Work.....10
HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION.....	12-14

STATE AUDITOR'S REPORT



CLAIRE C. McCASKILL
Missouri State Auditor

To the Honorable Chairman
and
Board of Trustees
Village of Pascola
Pascola, Missouri 63871

The State Auditor was petitioned under Section 29.230, RSMo, to audit the village of Pascola, Missouri. The scope of our audit of the village included, but was not necessarily limited to, the year ended December 31, 2002. The objectives of this audit were to:

1. Perform procedures to evaluate the petitioners' concerns.
2. Review internal controls over significant management and financial functions.
3. Review compliance with certain legal provisions.

To accomplish these objectives, we reviewed minutes of meetings, written policies, financial records, and other pertinent documents; interviewed various personnel of the village, as well as certain external parties; and tested selected transactions. Our methodology included, but was not necessarily limited to, the following:

1. We obtained an understanding of petitioner concerns and performed various procedures to determine their validity and significance.
2. We obtained an understanding of internal controls significant to the audit objectives and considered whether specific controls have been properly designed and placed in operation. However, providing an opinion on internal controls was not an objective of our audit and accordingly, we do not express such an opinion.

3. We obtained an understanding of legal provisions significant to the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting significant instances of noncompliance with the provisions. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the village's management and was not subjected to the procedures applied in the audit of the village.

The accompanying Management Advisory Report presents our findings arising from our audit of the Village of Pascola, Missouri.



Claire McCaskill
State Auditor

October 9, 2003 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits: Thomas J. Kremer, CPA
Audit Manager: Debra S. Lewis, CPA
In-Charge Auditor: Carl E. Zilch, Jr.

MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

VILLAGE OF PASCOLA, MISSOURI
MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

1.	Ordinances, Financial Reports, and Budgets
-----------	---

The village ordinances were not complete and up-to-date. In addition, the Board has not published a semi-annual financial statement, prepared an annual budget, or documented their approval of bills.

A. The village ordinances are not complete and up-to-date. Many of the ordinances in effect appear outdated or do not represent current practices. Most of the ordinances in effect for the village were written in 1968 with one additional ordinance added in 1987. The following are examples of outdated ordinances:

- Ordinance 1.9 discusses the appointment of a City Marshall. The Board does not appoint a City Marshall.
- Ordinance 3 discusses various fines and fees such as \$5 for a merchant license and \$2 for a motor vehicle license tax. These fines and fees are not being assessed or collected. In addition, the ordinance indicates the fees are to be collected by the City Collector, a position the village does not have.
- Ordinance 7 establishes a city planning commission. The village currently does not have any commissions or committees.

Since the ordinances represent the legislation passed by the Board of Trustees to govern the village and its residents, it is important that the village's ordinances be maintained in a complete, well-organized, and up-to-date manner.

B. The village does not publish semi-annual financial statements. Section 80.210, RSMo, requires that the Board of Trustees prepare and publish semi-annual financial statements to include a statement of village receipts and disbursements for the preceding six-month period. In addition, Section 80.220, RSMo, states that the village can be fined if the Chairman of the Board neglects to publish such statements.

C. The village does not prepare an annual budget. Section 67.080, RSMo 2000, provides that no expenditure of public monies shall be made unless it is authorized in the budget.

Sections 67.010 to 67.080, RSMo 2000, set specific guidelines for the format, approval, and amendment of the annual operating budget. A complete and well planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific cost and revenue expectations for

each area of the village operations and provide a means to effectively monitor actual costs and revenues.

- D. The Board of Trustees does not document its approval of bills. According to village officials, the board has given verbal approval to the Village Clerk/Treasurer to pay routine bills such as utilities, however the board has not documented such approval. The board also has no documentation of approving other non-routine bills such as renovations. The board should include a list of approved bills in the board's minutes. Currently the minutes only indicate that the Board of Trustees approved all of the bills. By signing the minutes, the Board would also document its approval of the list of bills for payment.

Conditions B, C, and D were noted in our prior report.

WE RECOMMEND the Board of Trustees:

- A. Update the village's ordinances.
- B. Publish semi-annual financial statements as required by state law.
- C. Prepare complete and accurate annual budget documents that contain all information required by state law and/or necessary to provide a complete financial plan for the village.
- D. Document its review and approval of the bills by including a list of the bills in the official signed copy of the minutes.

AUDITTEE'S RESPONSE

- A. *The Village Attorney is currently working on updating the village's ordinances.*
- B. *The financial statement for the year ended December 31, 2003 is ready to be sent to the newspaper.*
- C. *This recommendation has been implemented.*
- D. *This recommendation will be implemented.*

2. Public Records, Minutes, and Meetings

The village does not have a formal policy for public access to the village records. In addition, the board has not documented reasons for holding closed meetings and action taken in those meetings, has approved payment of bills in closed meetings, and held an unofficial meeting where discussion and decisions were made concerning culverts for the village.

- A. The village does not have a formal policy regarding public access to village records. A formal policy regarding access and obtaining copies of village records would establish guidelines for the village to make the records available to the public. This policy should establish a contact person, an address for mailing such requests, and a cost for providing copies of public records.

Section 610.023, RSMo, lists requirements for making village records available to the public. Section 610.026, RSMo, allows the village to charge fees for copying public records, not to exceed the village's actual cost of document search and duplication.

- B. The Board of Trustees frequently holds closed meetings. The open meeting minutes did not always document the specific reasons for closing the meetings and actions taken by the board in those meetings. In addition, closed meeting minutes indicate the Board of Trustees sometimes discussed and approved the payment of bills in such meetings.

Section 610.022, RSMo 2000, requires that before any meeting may be closed, the question of holding the closed meeting and the reason for the closed meeting shall be voted on at an open session. In addition, this law provides that public governmental bodies shall not discuss any other business during the closed meeting that differs from the specific reasons used to justify such meeting, record, or vote. Section 610.021, RSMo 2000, allows the board to discuss certain subjects in closed meetings, including litigation, real estate transaction, bid specifications and sealed bids, personnel matters, and confidential or privileged communications with auditors. The board should restrict the discussion in closed sessions to the specific topics listed in Chapter 610 of the state statutes.

- C. Village officials indicated the Board of Trustees held an unofficial meeting in 2000 concerning the discussion and decision on the placement of culverts in the village. No agenda was posted for this meeting and minutes were not maintained. Section 610.010, RSMo, indicates that any meeting of a public governmental body at which any public business is discussed, decided, or public policy formulated is subject to the provisions of the open meetings law. In addition, Section 610.020, RSMo, requires notices (including tentative agendas) to be posted in a prominent place which is easily accessible to the public, to be given at least twenty-four hours in advance, or if not feasible, reasons are to be documented in the board minutes.

WE RECOMMEND the Board of Trustees:

- A. Develop written policies regarding procedures to obtain public access to, or copies of, public village records.

- B. Ensure minutes document the vote to go into closed session, state the reasons for going into closed session and publicly disclose the final disposition of applicable matters discussed in closed session. In addition, the board should ensure only allowable specified subjects are discussed in closed session as required by state law.
- C. Ensure all board meetings are open to the public, unless closed as allowed by statute, and ensure notices are posted in accordance with state law.

AUDITTEE'S RESPONSE

- A. *We are currently working on an ordinance of this nature.*
- B&C. *These recommendations will be implemented.*

3.	Accounting Controls and Procedures
-----------	---

Accounting controls and procedures are in need of improvement. The board has one member that serves as the Village Clerk and Treasurer. In addition, the village does not maintain a checkbook balance, perform monthly bank reconciliations, or have bond coverage for the individuals authorized to sign checks.

- A. The village has one member of the Board of Trustees that serves as the Village Clerk and Treasurer, and his wife serves as secretary. The duties of this official and his wife include maintaining receipt and disbursement records, making bank deposits, preparing and signing checks (only the official can sign checks), receiving bank statements, and preparing financial reports.

Per village officials, the Board of Trustees has given approval to the Village Clerk to pay some invoices before they have been reviewed and approved by the board. Neither the board nor other personnel independent of the cash custody and the record-keeping functions provide adequate supervision or review of this work performed by the Village Clerk and his wife.

Attorney General's Opinion No. 24, 1955 to Dodds, concluded that in a fourth-class city the holding of the positions of City Clerk, City Treasurer, and City Collector, or any two of these three offices, by the same person at the same time would be incompatible.

Holding all of these offices does not allow the segregation of duties necessary for a proper evaluation and review of financial transactions. The current procedures jeopardize the system of independent checks and balances intended by state law.

- B. A checkbook balance is not maintained and bank reconciliations are not performed each month. The village does not keep a ledger book with a book

balance. The village uses their checkbook register as their record of transactions; however, they failed to record some transactions and did not maintain a balance in the register. To ensure all differences between the bank and book balances are noted in a timely manner, formal bank reconciliations should be performed monthly and a running balance should be maintained in the checkbook register.

- C. The Village Clerk, Board Chairman, and one Board member are authorized to sign checks; however, the village does not have bond coverage for them. Section 80.250, RSMo, requires the Village Clerk to be bonded in a sum not less than one thousand dollars. Failure to properly bond all persons with access to assets exposes the village to risk of loss. Currently, dual signatures are normally on checks; however, two signatures are not required. Requiring two signatures on all checks would also provide additional controls over the use of the funds.

Conditions A and C were noted in our prior report.

WE RECOMMEND the Board of Trustees:

- A. Consider appointing separate individuals to the positions of Village Clerk and Village Treasurer. If this is not possible, at a minimum, procedures for an adequate independent review of the record keeping functions should be established.
- B. Ensure monthly bank reconciliations are prepared and the checkbook balance is maintained.
- C. Obtain adequate bond coverage for all persons handling village monies and require two signatures on all checks.

AUDITTEE'S RESPONSE

- A. *We will attempt to implement this recommendation; however, it is difficult to find individuals who are willing to fill these positions.*
- B. *This recommendation has been implemented.*
- C. *This recommendation will be implemented.*

4. City Hall Property and Restoration Work

The village had an apparent conflict of interest with a board member performing restoration work on city hall. In addition, the village did not have adequate procedures in place concerning the restoration work, insurance coverage, and the selling of village property.

- A. The village had an apparent conflict of interest with a board member performing restoration work. In 2003, the village advertised for bids for restoration work on city hall. While the board did not prepare formal bid specifications for the project, a board member familiar with construction projects prepared a list of things to be completed. The village received two bids for this project, one from a board member for \$9,800 and another bid for \$8,292. The board member who submitted the bid excused himself from the board meeting before the award was voted on to avoid any possible conflicts. The project was then awarded to the board member and while the reasons for this decision were documented in the minutes, it is questionable whether the village was required to award the project to the low bidder since an elected official was involved in the bid.

Section 105.454, RSMo, prohibits financial transactions between a village and an officer or employee (or spouse, dependent child, or business and corporate interest of the officer or employee) of that village that involved more than \$1,500 per year or \$500 per transaction unless there had been public notice to solicit proposals and (except for real property) competitive bidding, provided that the bid or offer was the lowest received.

Officers and agents of a village serve in a fiduciary capacity. Personal interests in business matters of the village create the appearance of conflicts of interest and a lack of independence that could harm public confidence in the board and reduce their effectiveness. Given the circumstances of this transaction, the village should have considered re-bidding the project to ensure overall compliance.

- B. The Board of Trustees failed to obtain insurance for the recently renovated City Hall building against loss, damage, or liability. This lack of insurance coverage subjected taxpayer funds to unnecessary risks of loss. Had the building been damaged or destroyed, the village would have received no compensation for any losses. To adequately safeguard village assets and prevent loss of taxpayer monies, the board should obtain adequate insurance coverage for all assets.

A similar condition was noted in our prior report.

- C. The village did not obtain appraisals to ensure the reasonableness of selling price for two parcels of land. From a 1998 purchase of the former Pascola Elementary School and surrounding property, the village sold two parcels of land for \$5,000 to help pay for the restoration cost of the school building. The village advertised that it had lots for sale and provided a phone number to call for more information. Per village officials, they originally asked \$10,000, but later reduced the price due to a lack of interest. The land was subsequently sold to a board member after no offers were received for the property. The village had no documentation supporting the basis for their original asking price or what they finally accepted.

By not obtaining professional appraisals to value the land prior to sale, there is less assurance the price the village received for the land was reasonable or

represented the fair value of the property. Good business practice requires that major real estate sales be formally and independently appraised to ensure a reasonable price is paid.

WE RECOMMEND the Board of Trustees:

- A. Refrain from paying officials for services provided to the village (or entering into any other business transaction with a village official) unless such services or transactions are properly bid in accordance with state law.
- B. Ensure that village assets are adequately insured to protect against potential losses, damage, or liability.
- C. Obtain independent appraisals on property sold in the future to ensure they have established a reasonable purchase price.

AUDITTEE'S RESPONSE

- A. *We handled this matter as advised by an attorney to try to avoid any appearance of conflict. We felt that no one else would be interested in the project. In the future, we will select the lowest bidder in this type of situation.*
- B. *This recommendation has been implemented.*
- C. *This recommendation will be implemented.*

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

VILLAGE OF PASCOLA, MISSOURI
HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

The village of Pascola is located in Pemiscot County. The village was incorporated in 1893. The population of the village in 2000 was 138.

The village government consists of a five-member board of trustees. The members are elected for 2-year terms. The chairperson is appointed by the board from the members. The village board of trustees, and other principal officials during the year ended December 31, 2002, are identified below. There is no compensation paid to any of the elected officials.

<u>Elected Officials</u>	<u>Term Expires</u>
Cleo Brents, Chairperson (1)	April 2004
Woodrow Duffy, Trustee (2)	April 2004
Hubert Moore, Trustee	April 2004
Sidney Shull, Trustee (3)	April 2003
Johnny Durham, Trustee (4)	April 2003

- (1) Mr. Brents resigned from the Board in November 2003. His position on the Board remains open.
- (2) Woodrow Duffy has been appointed to serve as Village Clerk and Treasurer. He received no compensation during the year ended December 31, 2002 for these services.
- (3) Sidney Shull was re-elected in April of 2003. Mr. Shull was appointed as Chairperson upon Mr. Brents' resignation.
- (4) Brenda Prince was elected in April of 2003.

Assessed valuations for 2002 were as follows:

ASSESSED VALUATION

Real estate	\$ 224,310
Personal property	67,380
Total	<u>\$ 291,690</u>

A summary of the village's financial activity for the year ended December 31, 2002, is presented below:

	General Fund	Street Fund	Total
RECEIPTS			
Franchise fees	\$ 2,718	0	2,718
State, gas, vehicle tax	0	5,492	5,492
Interest	768	28	796
Total Receipts	3,486	5,520	9,006
DISBURSEMENTS			
Advertisement expense	33	0	33
Election expense	256	0	256
Maintenance supplies	244	0	244
Street lights	0	2,184	2,184
Street expenses	0	134	134
Total Disbursements	533	2,318	2,851
Receipts Over (Under)			
Disbursements	2,953	3,202	6,155
Cash January 1, 2002	30,030	5,349	35,379
Cash December 31, 2002	\$ 32,983	8,551	41,534